

CBO TESTIMONY

**Statement of
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Issues in Estimating the Cost of Operations in Iraq and the War on Terrorism

**before the
Subcommittee on National Security, Emerging Threats,
and International Relations
Committee on Government Reform
U.S. House of Representatives**

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Mr. Chairman, Congressman Kucinich, and Members of the Subcommittee, I appreciate the invitation to appear before you today to discuss the accuracy and reliability of cost estimates for operations in Iraq and the war on terrorism. My statement is based on the Congressional Budget Office's (CBO's) analyses of and research on this issue over the past few years. CBO has been asked, on a number of occasions, to determine how much has been spent and how much might be spent in the future for those activities. Most recently, CBO estimated the future costs of military operations in Iraq under two different scenarios at the request of Congressman Spratt, the Ranking Member of the House Committee on the Budget.¹

This testimony will briefly discuss appropriations and obligations to date for operations in Iraq and the war on terrorism. It will also offer an overview of budgeting and reporting issues.

Appropriations and Obligations to Date

Since September 2001, the Congress has appropriated \$432 billion for military operations and other activities related to Iraq and the war on terrorism (see Table 1). About \$393 billion of that sum was allocated to the Department of Defense (DoD).² Because some of those funds are designated for classified purposes, about which little information is publicly available, CBO cannot provide a precise estimate of the amounts obligated to date. However, CBO concludes that DoD has obligated almost all of those funds, with the exception of the roughly \$66 billion appropriated in the most recent supplemental (Public Law 109-234, Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006). That judgment is based on an analysis of obligation reports provided by DoD.³

In addition to appropriations for military operations, the Congress has appropriated about \$40 billion for diplomatic operations in and aid to Iraq, Afghanistan, and other countries assisting the United States in Iraq and in the war on terrorism.⁴ About half of that amount (\$21 billion) has been appropriated for the Iraq Relief and Reconstruction Fund, of which just over 90 percent has been

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1. Congressional Budget Office, *Letter to the Honorable John M. Spratt Jr. on the Estimated Costs of U.S. Operations in Iraq Under Two Specified Scenarios* (July 13, 2006).
 2. The \$393 billion in appropriations for the Department of Defense includes about \$12 billion in funding for indigenous Iraqi and Afghan security forces. That funding was shown separately in CBO's July 13 report for Congressman Spratt.
 3. The most recent reports provided by DoD cover obligations through April 2006.
 4. The \$40 billion amount includes about \$5 billion in funding for indigenous Iraqi and Afghan security forces, which was shown separately in CBO's July 13 report for Congressman Spratt.

Table 1.

Estimated Budget Authority for Operation Iraqi Freedom and the War on Terrorism, Through Fiscal Year 2006

(Billions of dollars, by fiscal year)

	2001	2002	2003	2004	2005	2006	Total
Department of Defense	14	17	80	88	77	116	393
Foreign Aid and Diplomatic Operations	<u>*</u>	<u>1</u>	<u>8</u>	<u>22</u>	<u>3</u>	<u>4</u>	<u>40</u>
Total	14	19	88	111	81	120	432

Source: Congressional Budget Office.

Notes: * = Less than \$500 million.

Numbers may not add up to totals because of rounding.

Estimates are based on analyses of appropriation acts and the Department of Defense's budget documentation.

obligated to date. On the basis of information from the Department of State, CBO estimates that most of the remaining \$19 billion has been obligated.

Estimating the Cost of War

DoD estimates future war costs using a combination of cost models, surveys of damaged and destroyed equipment, and analyses of actual costs incurred to date. DoD's principal model for estimating war costs is the Contingency Operations Support Tool (COST), which was developed by the Institute for Defense Analyses. That model uses cost factors derived from actual expenditures for prior contingency operations to estimate operation and support costs for deploying units.⁵ However, the model is not used to estimate the full cost of repairing or replacing damaged or destroyed equipment or expenses necessary to restore units and materiel to predeployment conditions; such costs are estimated separately by each of the military services. Those estimates, together with the operation and

5. According to 10 U.S.C. 101(a)(13), a "contingency operation" means a military operation in which members of the armed forces are or may become involved in military actions, operations, or hostilities against an enemy of the United States. It can also mean an operation in which reserve-component members are called to active status or any other national emergency declared by the President or the Congress.

support estimates produced by the COST model, provide a basis for DoD's estimates of necessary funding.

The actual obligations incurred for military operations in Iraq and the war on terrorism are tracked by the Defense Finance and Accounting Service, which issues monthly reports on financial obligations for each of the major ongoing operations (Iraqi Freedom, Enduring Freedom, and Noble Eagle).⁶ The reports also show obligations by the year in which the funds were appropriated, as well as by military service.

Budgeting and Reporting Issues

CBO has been asked by the Congress on several occasions to estimate the future costs of operations in Iraq and the war on terrorism. Estimating war costs is always difficult because of uncertainty about the pace and scale of future military operations. However, better estimates could be provided to the Congress if more information was available on costs incurred to date. In particular, CBO has identified four main concerns regarding the current process of budgeting and cost reporting for operations in Iraq and the war on terrorism.

Supplemental Budget Requests and Obligation Reports

DoD's supplemental budget requests and the monthly obligation reports issued by the Defense Finance and Accounting Service often do not provide enough detail to determine how DoD develops its budget requests and how funds for operations in Iraq and the war on terrorism have been obligated. The \$440 billion requested by DoD for its regular activities in fiscal year 2007 was supported by very detailed justification documents. By contrast, DoD's most recent supplemental request, which totaled about \$68 billion, was accompanied by relatively little backup material. For instance, it included only five pages for operation and maintenance costs, even though those costs constituted almost half (about \$33 billion) of the request.⁷

DoD recently delivered to the Congress justification material for \$50 billion requested by the Administration as part of its proposed 2007 budget to cover the cost of operations related to Iraq and the war on terrorism for the first part of that fiscal year. Because the documentation was only recently delivered and is in draft

6. Operation Enduring Freedom includes military operations in and around Afghanistan and other overseas counterterrorism activities. Operation Noble Eagle refers to homeland security missions, such as combat air patrols over major metropolitan areas, undertaken by DoD in response to the terrorist attacks of September 11, 2001.

7. Among many other things, operation and maintenance includes funding for such things as contractor support, fuel, spare parts, depot maintenance, base operations, and transportation.

form, CBO cannot comment on the specifics of that material at this time. However, upon initial inspection, it appears that the material is more detailed, at least in some respects, than such documentation provided in the past.

The monthly obligation reports also provide limited information. According to those reports, about \$84 billion was obligated for military operations in Iraq and the war on terrorism in fiscal year 2005. Of that amount, 25 percent (\$21 billion) was allocated for purposes described as “other.” Little information was provided to suggest how the funds were obligated. Without a better understanding of those expenditures, it is difficult to estimate whether such costs will be incurred in future years. The reports also do not include obligations for classified activities. On the basis of conference reports for various supplemental appropriation acts, CBO estimates that those costs are at least \$25 billion. In addition, the obligation reports would be a more useful source of information if they contained some information on the pace of operations—such as troop levels, flying hours, or vehicle miles—in a given month. Such information would be useful in analyzing monthly cost variations.

Timing of Budget Requests

Since fiscal year 2001, funding for activities in Iraq and the war on terrorism has been provided through a combination of partial-year appropriations (sometimes referred to as bridge appropriations), which are enacted near the beginning of the fiscal year, and midyear supplemental appropriations. If the bridge appropriations run out before enactment of the midyear appropriations, DoD can pay for war-related expenses using funds meant for its regular activities besides war, which are then reimbursed upon enactment of the midyear supplemental. In the event the midyear appropriations are delayed and funds for DoD’s regular activities begin to run out, DoD has some options. One option would be to use its authority to transfer funds among various appropriation accounts (such as transferring funds from procurement accounts to operation and maintenance accounts), although that authority is limited. In addition, DoD could invoke the Feed and Forage Act (41 U.S.C. 11), which allows the President to obligate funds without an appropriation for the purpose of sustaining troops in the field. That authority was invoked immediately after the terrorist attacks on September 11, 2001, although ultimately it was not used because the Congress quickly provided the necessary appropriations.⁸

Some analysts have suggested that, to better assist in planning future defense budgets, DoD should include the entire fiscal year’s cost of activities in Iraq and

8. The authority of the Feed and Forage Act is limited to obligations for items meant to sustain troops in the field, such as clothing, subsistence, fuel, quarters, transportation, and medical supplies. It cannot be used to purchase additional weapons or for support of military hardware.

the war on terrorism in its regular budget request. That approach would have both positive and negative consequences. On the positive side, including war costs in the regular request would give the Congress more time to debate and modify the budget request for those activities. Also, fully funding those operations at the beginning of the fiscal year would help DoD avoid any potential funding issues that might arise from delayed enactment of midyear supplemental appropriations. On the negative side, budgeting for activities in Iraq and the war on terrorism in combination with the regular budget request could result in less clarity about which funds would go to war-related activities and which were intended strictly for peacetime operations. In addition, submitting the request at the beginning of the fiscal year could lead to less accurate cost projections because the budget must be submitted in February (eight months prior to the start of the fiscal year).⁹

Tracking Actual War-Related Obligations and Outlays

Regardless of when the funds for Iraq and the war on terrorism are provided, they are recorded in the same appropriation accounts that fund the regular nonwar budget, making it difficult to sort out how much is ultimately spent on war-related activities. For example, the Congress appropriated about \$218 billion to DoD's operation and maintenance accounts for fiscal year 2006. Of that amount, about \$72 billion was appropriated for war-related activities and about \$146 billion was appropriated for DoD's regular operating costs.

The standard budget execution reports submitted to the Office of Management and Budget do not delineate between those war and nonwar expenditures, making it difficult to determine how much has actually been spent for activities related to Iraq and the war on terrorism. The Defense Finance and Accounting Service issues monthly reports that track war-related obligations, but, as indicated earlier, those reports do not include obligations for classified programs and do not provide detail on the pace of operations.

Distribution of Data and Information

CBO frequently has difficulty obtaining monthly reports on war obligations and other data. Often the agency receives that information months after the data are officially approved for release. That problem could be addressed by establishing a standard, more-comprehensive distribution list for the war obligation reports and other data. It would also be helpful to have access to the COST model that DoD uses to formulate its supplemental requests or to the data and methodology underlying it.

9. Much of the agencies' budget preparation occurs long before the February budget submission.